

# **ASDA Group plc**

## **Report and Accounts**

1 May 1999

*Registered No.1396513*



# ASDA Group plc

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Registered No. 1396513

## DIRECTORS

A J Norman	(Chairman)	
A L Leighton		
S A Cain	(resigned 30/11/98)	
L A Campbell		
P Mason		
P R Cox	(resigned 17/12/98)	
A De Nunzio	(appointed 15/09/98)	
M A Coupe	(appointed 15/09/98)	
F W Knight	(Deputy Chairman)	(resigned 4/6/99)
Sir I Gibson	(Deputy Chairman)	(resigned 10/9/99)
S C Ellen	(resigned 15/9/98)	
F A A Maude	(resigned 10/9/99)	
R C North	(resigned 10/9/99)	
M P Read	(resigned 10/9/99)	
I Robinson	(resigned 10/9/99)	
S Tinson	(resigned 10/9/99)	

## SECRETARY

D N Jagger

## AUDITORS

Ernst & Young  
Becket House  
1 Lambeth Palace Road  
London  
SE1 7EU

## SOLICITORS

Slaughter and May  
35 Basinghall Street  
London  
EC2V 5DB

## REGISTERED OFFICE

ASDA House  
Southbank  
Great Wilson Street  
Leeds  
LS11 5AD

## REGISTRARS

Lloyds TSB Registrars  
54 Pershore Road  
South Birmingham  
B30 3EP

## BANKERS

National Westminster Bank plc  
Leeds City Office  
8 Park Row  
Leeds  
LS1 1QS

DIRECTORS' REPORT

The directors present their report, together with the accounts of the group, for the 52 weeks ended 1 May 1999.

**PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

The principal activities of the group are the operation of food, clothing, home and leisure superstores throughout Great Britain and property development.

Turnover this year grew to £8.2 billion, an increase of 7.6% compared to prior year. Growth in George clothing was particularly strong with sales up 15.3% in a market that has declined by around 1%. Home and Leisure also performed well with total sales up 12.4%. These results illustrate the success of a strategy based on value, and extending our points of difference that mark us out from our competitors.

Total capital investment, excluding capitalised interest, was £540 million compared to £471 million in prior year. The balance sheet remains strong with low gearing and a property portfolio conservatively valued with a high proportion of freeholds.

**GROUP PROFIT AND DIVIDENDS**

Group profit on ordinary activities before taxation amounts to £422.9 million compared with £404.9 million for the previous year.

An interim dividend of 0.95 pence per ordinary share was paid during the year. As a result of the Wal-Mart acquisition no final dividend will be paid.

**POST BALANCE SHEET EVENT**

On 14 June 1999 Wal-Mart Stores (UK) Limited (Wal-Mart UK), a subsidiary of Wal-Mart Stores, Inc., announced a cash offer for 100% of the issued share capital of ASDA Group plc. The offer became fully unconditional on 27 July 1999. Following receipt of acceptances representing 90% of the outstanding issued share capital not owned by Wal-Mart UK prior to the announcement of the offer, Wal-Mart UK commenced the process of compulsorily acquiring the outstanding balance of shares. As a consequence it is intended Asda Group plc will be de-listed from the Stock Exchange Official List on 1<sup>st</sup> October. Early in October it is intended Asda Group plc will re-register as a private limited company, amend its Memorandum of Association accordingly and adopt new Articles of Association appropriate to a private limited company. Also in October it is intended Asda Group plc will change its name to Asda Group Limited.

**DIRECTORS AND THEIR INTERESTS**

The Directors who served during the year are shown on page 2.

DIRECTORS' REPORT

*Directors' Shareholdings*

The interests of the directors, all of which are beneficial, in the ordinary shares of the Company are shown below:

	<i>1 May 1999</i>	<i>2 May 1998 or appointment date if later</i>
	<i>No.</i>	<i>No.</i>
CHAIRMAN		
A J Norman	200,820	200,820
EXECUTIVE DIRECTORS		
A L Leighton	98,169	98,139
L A Campbell	89,902	89,902
P Mason	4,769	4,740
A De Nunzio	29,476	29,476
M A Coupe	14,142	14,142
NON-EXECUTIVE DIRECTORS		
F W Knight (Deputy Chairman)	26,000	26,000
Sir I Gibson (Deputy Chairman)	17,399	17,370
S C Ellen	-	26,000
F A A Maude	26,155	26,155
M P Read	15,000	15,000
R C North	10,000	10,000
I Robinson	5,000	5,000
S Tinson	4,860	4,860

No director had any interest in any bonds issued by the Company or any of its subsidiaries.

DIRECTORS' REPORT

*Directors' Share Options*

Details of share options held by each director in office on 1 May 1999 are as follows:

<i>Director</i>	<i>2 May 1998 or subsequent date of appointment No.</i>	<i>Granted in the year No.</i>	<i>Exercised during the year No.</i>	<i>1 May 1999 No.</i>
<b>A J Norman</b>	3,517,700	26,048*	-	3,543,748
<b>A L Leighton</b>	2,802,924	311,792	779,390	2,335,326
<b>L A Campbell</b>	1,197,062	284,494	203,042	1,278,514
<b>P Mason</b>	1,087,454	273,658	412,600	948,512
<b>M A Coupe</b>	642,441	51,142	-	693,583
<b>A De Nunzio</b>	615,989	50,123	-	666,112

\* This represents options granted in lieu of dividends in respect of existing options which have fully vested but not yet been exercised.

### COLLEAGUE INVOLVEMENT AND COMMUNICATIONS

At ASDA we are committed to ensuring that all colleagues have an opportunity to realise their full potential and that all colleagues and applicants are treated fairly regardless of gender, age, marital status, race, religion or disability. During the last year we have actively encouraged the recruitment and retention of older colleagues into stores. We are aiming to recruit in our new Broadstairs store 50% of colleagues over 50 years of age.

We are also committed to making all colleagues feel an important part of the business and actively encourage colleagues to come forward with ideas for improving their business. This encourages extraordinary motivation and customer service, and we have a team dedicated to ensuring that this high level of participation and enthusiasm is maintained.

To ensure that colleague involvement is encouraged throughout the business we operate a Colleague Involvement League. This measures stores on a number of aspects: the extent to which they become involved in their local community, charitable events, the number of Tell Archie suggestions, VPI participation, ABCD awards and the number of STAR points awarded to colleagues. Such programmes ensure that colleagues are rewarded and recognised for the fantastic things they do every day.

How we look after our colleagues and manage the business is also critical to our success. Key to this is the colleague circle in each store, distribution centre and at Asda House and George. This meets monthly to obtain views from colleagues on matters as diverse as colleague uniforms, recruitment, pay and benefits and re-rostering. Annually we hold a national colleague circle to which every store and distribution centre sends a representative to engage in open discussions with members of the board.

Face to face communication is a key factor in motivating colleagues within Asda. Colleagues are kept informed about the company's objectives and performance through a structured communications process.

This process includes daily Huddles - short meetings to discuss day to day tasks and local performance. These take place on the shop floor and in all departments at Asda House, George and in distribution centres. Monthly meetings enable colleagues to review and discuss overall company performance and challenges for the coming month, whilst the ASDA News video and the Colleague Newsletter provide an opportunity for colleagues and the company as a whole to shout about their successes.

Electronic communication - E-Mail and ASDA's Intranet are continuing developments which are helping us to improve the efficiency of communication within the business.

DIRECTORS' REPORT

**CHARITABLE DONATIONS**

This year our colleagues have continued their enthusiastic and valuable support for a wide range of good causes in the communities where we trade. Charitable support is colleague led and organised locally, which means that we're able to make a difference to many small groups who are important to their communities, but who lack a national presence.

Our charitable trust, the ASDA Foundation, whose trustees are all colleagues, helps formulate broad guidelines, co-ordinates our larger charitable events and makes contributions to causes supported by stores distribution centres and George. Last year, fundraising around the business, together with donations from the ASDA Foundation, exceeded £2 million. In addition, community contributions included non-cash support, such as gifts in kind for promotions and raffles and practical support for charities and volunteer groups through our community days programme.

We do not make any political donations.

**RESEARCH AND DEVELOPMENT**

One of our key objectives is to continue to offer our customers an exciting range of value for money products, many of which are exclusive to ASDA. To do this we subject existing own brand products sold under the ASDA Brand and Farm Stores labels to rigorous quality tests. Customers are also used in tasting panels to ensure that we develop those flavours which are most in demand.

We inspect suppliers' manufacturing processes to ensure that they maintain the highest levels of hygiene and have an active programme of new product development with many of our suppliers in our search for entirely new products for our customers.

We have an innovations team dedicated to developing new ways of trading and identifying important new retailing trends. Our stores too are consistently undergoing improvement and modernisation, where possible using environmentally friendly materials and processes.

**ENVIRONMENT**

We seek to become a valued part of the communities in which we trade and take a responsible approach to our wider environment. Many of our activities from purchasing products or packaging to selecting sites for development have annual, measurable environmental targets applied and we encourage our suppliers to follow best environmental practices.

We install many energy efficient technologies in all new and refurbished stores and actively encourage energy awareness amongst all store colleagues to reduce our utilities consumption.

All stores recycle cardboard packaging and we work with a number of partners to reduce waste and recycle other materials as much as is cost effective. We encourage customers to recycle by placing messages at point of sale and on the product label and by providing a range of glass, can, paper, plastic and textile recycling banks at our stores.

We audit our suppliers to ensure the treatment of their employees and the conditions in which they work meet the international standards our customers expect. ASDA was a founder member of the Ethical Trading Initiative which coordinates the UK approach to these issues.

ASDA supports the Fresh Produce Consortium Code of Practice for pesticide control and NFU Crop Protocols which seek to minimise the use of chemical pesticides and monitor the environmental impact of farm management.

DIRECTORS' REPORT

**ENVIRONMENT** (continued)

Through our Animal Welfare policy and Farm Assurance standards we ensure that animals are treated humanely during their rearing, transportation and slaughter. This also enables us to identify the origin of the meat and poultry we offer to customers and to provide customers with reassurance as to where the product originates and how the animal was cared for.

**PENSIONS**

All full and part time salaried colleagues are entitled to participate in a final salary pension scheme and all full and part time hourly paid colleagues are invited to join a money purchase plan. Both schemes provide benefits in addition to the basic state pension and provide other important benefits such as life assurance and dependants' pensions.

Both schemes are administered in house by a specialised team of colleagues and the interests of members are monitored by an experienced body of trustees who represent a broad cross section of colleagues, over one third of whom are nominated by members.

**TRADING TERMS**

The group deals with over five thousand separate suppliers and has established trading terms which are appropriate to the particular relationship and product supplied. Whenever an order is placed the parties will be aware of the payment terms and it is the Company's policy to abide by those terms. There is a procedure in place for ensuring that the trading terms of regular suppliers are reviewed as least annually. The average number of days credit taken for trade purposes at 1 May 1999 was 29 days (1998: 29 days).

**YEAR 2000 COSTS**

Many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to avoid malfunctions and disruption from the year 2000 and beyond.

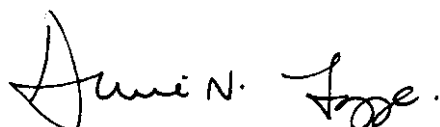
We have undertaken a comprehensive review of our systems and as far as practicable do not foresee any major issues. Where appropriate we have changed suppliers who did not appear to be Year 2000 compliant.

The total cost of the plan is currently estimated at £18 million, of which £15 million has been incurred and expensed to date.

**AUDITORS**

A resolution to reappoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

By Order of the Board  
Denise N Jagger  
Company Secretary





STATEMENT OF DIRECTORS' RESPONSIBILITIES

**DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS**

The following statement, which should be read in conjunction with the auditors' report set out on page 10 is made for the purpose of clarifying for members the respective responsibilities of the directors and the auditors in the preparation of the accounts. The directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group at the end of that financial year and of the Group's profit or loss for the year.

The directors consider that, in preparing the accounts, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and confirm that all applicable accounting standards have been followed.

The directors have responsibility for ensuring that the Group keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Group and which enable them to ensure that the accounts comply with the Companies Act 1985. The directors also have responsibility for taking such steps as are reasonably open to them for safeguarding the assets of the Group and for the prevention and detection of fraud and other irregularities.

After making appropriate enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

**REPORT OF THE AUDITORS**  
to the members of ASDA Group plc

We have audited the accounts on pages 11 to 33, which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and on the basis of the accounting policies set out on page 15 and 16.

**Respective responsibilities of directors and auditors**

As described on page 9 the directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

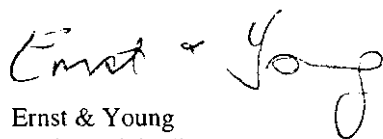
**Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

**Opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 1 May 1999 and of the profit of the group for the 52 weeks then ended, and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young  
Registered Auditor  
London

27/9/99

# ASDA Group plc

## GROUP PROFIT AND LOSS ACCOUNT

for the 52 weeks ended 1 May 1999

	<i>Note</i>	<i>1999 £m</i>	<i>1998 £m</i>
<b>SALES</b>		8,866.7	8,241.4
Value added tax		668.4	622.2
<b>TURNOVER</b>	<b>1</b>	<b>8,198.3</b>	<b>7,619.2</b>
Operating costs	<b>2</b>	<b>7,762.7</b>	<b>7,205.5</b>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST</b>		<b>435.6</b>	<b>413.7</b>
Net interest payable	<b>3</b>	<b>(12.7)</b>	<b>(8.8)</b>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>422.9</b>	<b>404.9</b>
Taxation	<b>4</b>	<b>(105.9)</b>	<b>(98.4)</b>
<b>PROFIT FOR THE FINANCIAL YEAR</b>		<b>317.0</b>	<b>306.5</b>
Dividends	<b>5</b>	<b>(28.8)</b>	<b>(105.1)</b>
<b>RETAINED PROFIT FOR THE FINANCIAL YEAR</b>	<b>21</b>	<b>288.2</b>	<b>201.4</b>

There were no other recognised gains or losses for the period other than the profit for the 52 weeks of £317.0m (1998: £306.5m).

## ASDA Group plc

### RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the 52 weeks ended 1 May 1999

	1999 £m	1998 £m
Total recognised gains and losses	317.0	306.5
Dividends	(28.8)	(105.1)
	<hr/> 288.2	<hr/> 201.4
Shares issued	7.4	16.9
	<hr/> 295.6	<hr/> 218.3
Total movements during the year	295.6	218.3
Shareholders' funds at beginning of the year	2,279.8	2,061.5
	<hr/> 2,575.4	<hr/> 2,279.8
Shareholders' funds at end of the year	<hr/> <hr/> 2,575.4	<hr/> <hr/> 2,279.8

### NOTE OF HISTORICAL COST PROFITS AND LOSSES

for the 52 weeks ended 1 May 1999

	1999 £m	1998 £m
Reported profit on ordinary activities before taxation	422.9	404.9
Adjustment of depreciation to historical cost basis	(3.0)	(2.7)
	<hr/> 419.9	<hr/> 402.2
Historical cost profit on ordinary activities before taxation	419.9	402.2
	<hr/> 285.2	<hr/> 198.7
Historical cost retained profit	<hr/> <hr/> 285.2	<hr/> <hr/> 198.7

# ASDA Group plc

## BALANCE SHEET

as at 1 May 1999

		Group	Company		
		1999	1998	1999	1998
	Note	£m	£m	£m	£m
<b>FIXED ASSETS</b>					
Tangible assets	7	3,574.8	3,196.3	-	-
Investments	8	9.3	10.6	1,682.2	1,683.5
Colleague Share Ownership Plan	18	57.1	53.1	57.1	53.1
		<u>3,641.2</u>	<u>3,260.0</u>	<u>1,739.3</u>	<u>1,736.6</u>
<b>CURRENT ASSETS</b>					
Stocks	10	426.7	365.0	-	2.0
Debtors	11	121.6	95.9	1,644.5	1,606.3
Investments	12	103.2	114.1	103.0	50.0
Cash at bank and in hand		17.1	18.7	-	2.3
		<u>668.6</u>	<u>593.7</u>	<u>1,747.5</u>	<u>1,660.6</u>
<b>CREDITORS: amounts falling due within one year</b>					
Borrowings	16	(81.8)	(28.1)	(6.0)	-
Other creditors	13	(1,099.3)	(1,045.1)	(1,152.2)	(1,200.8)
		<u>(1,181.1)</u>	<u>(1,073.2)</u>	<u>(1,158.2)</u>	<u>(1,200.8)</u>
<b>NET CURRENT (LIABILITIES)/ASSETS</b>		<u>(512.5)</u>	<u>(479.5)</u>	<u>589.3</u>	<u>459.8</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>3,128.7</u>	<u>2,780.5</u>	<u>2328.6</u>	<u>2,196.4</u>
<b>CREDITORS: amounts falling due after more than one year</b>					
Borrowings	16	(512.5)	(422.1)	(480.0)	(331.4)
Provisions	14	(40.8)	(78.6)	-	-
		<u>2,575.4</u>	<u>2,279.8</u>	<u>1,848.6</u>	<u>1,865.0</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	19	763.2	761.1	763.2	761.1
Share premium account	21	408.8	403.5	408.8	403.5
Revaluation reserve	21	229.4	229.4	161.5	161.5
Profit and loss account	21	1,174.0	885.8	515.1	538.9
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<u>2,575.4</u>	<u>2,279.8</u>	<u>1,848.6</u>	<u>1,865.0</u>

A De Nunzio  
Finance Director  
Approved by the Board on



# ASDA Group plc

## GROUP CASH FLOW STATEMENT

for the 52 weeks ended 1 May 1999

	<i>Notes</i>	<i>1999 £m</i>	<i>1998 £m</i>
Net cash inflow from operating activities	22	565.1	549.1
Returns on investment and servicing of finance	22	(22.2)	(20.8)
Taxation	22	(90.2)	(82.1)
Capital expenditure and financial investment	22	(511.2)	(423.9)
Equity dividends paid		(106.8)	(93.4)
Cash outflow before use of liquid resources and financing		(165.3)	(71.1)
Management of liquid resources	22	10.9	261.6
Financing			
Issue of ordinary share capital		8.7	6.3
Borrowings and lease financing	22	144.1	(198.0)
		152.8	(191.7)
Decrease in cash in period		(1.6)	(1.2)

## RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	<i>Notes</i>	<i>1999 £m</i>	<i>1998 £m</i>
Decrease in cash in period		(1.6)	(1.2)
Cash (inflow)/outflow from borrowings and lease financing	22	(144.1)	198.0
Cash inflow from management of liquid resources	22	(10.9)	(261.6)
Change in net debt resulting from cash flows		(156.6)	(64.8)
Opening net debt	22	(317.4)	(252.6)
Closing net debt	22	(474.0)	(317.4)

### ACCOUNTING BASIS

The accounts are prepared under the historical cost convention modified to include the revaluation of certain fixed assets.

The accounts are prepared in accordance with applicable accounting standards.

### CONSOLIDATED ACCOUNTS

The consolidated accounts incorporate the accounts of the company and its subsidiary undertakings together with the group's share of the profits less losses of associated undertakings, adjusted where appropriate to conform to group accounting policies for the 52 weeks ended 1 May 1999.

### GOODWILL

Goodwill arising on acquisitions prior to 2 May 1998 was set off directly against reserves in the group accounts. Goodwill previously eliminated against reserves has not been reinstated on implementation of FRS 10.

Positive goodwill arising on acquisitions since 2 May 1998 is ordinarily capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life up to a presumed maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

If a subsidiary, associate or business is subsequently sold or closed, any goodwill arising on acquisition that was written off directly to reserves or that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

### TURNOVER

Turnover comprises the value of sales excluding value added tax and intra-group transactions.

### TANGIBLE FIXED ASSETS

The group's tangible fixed assets are included in the balance sheet at cost less depreciation, with the exception of its food retailing properties, which have been included at valuation less depreciation and amounts written off.

### DEPRECIATION

The group's tangible fixed assets are depreciated over their estimated useful lives, on a straight line basis, as follows:

Freehold and long leasehold property	20 - 50 years
Short leasehold property	Over period of lease
Plant, fixtures and fittings	3 - 20 years

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

#### **LEASED ASSETS**

Assets held under finance leases are capitalised as tangible fixed assets and are included in borrowings at the cost of outright purchase. Rentals are apportioned between reductions in the capital obligations included in borrowings and those relating to finance charges which are charged to the profit and loss accounts at a constant periodic rate of charge.

The capitalised cost of leased assets is written off over the shorter of their estimated useful lives or the lease terms.

The costs of operating leases are charged to the profit and loss account on a straight line basis over the lease term.

#### **CAPITALISATION OF INTEREST**

Interest costs relating to the financing of properties in the course of construction for trading occupation by the company or its subsidiary undertakings are capitalised gross (previously net of tax relief).

Interest costs incurred in funding land and construction work in progress in respect of property development projects are capitalised during development.

#### **STOCKS**

Stocks comprise goods held for resale and development properties and are valued at the lower of cost and net realisable value.

#### **DEFERRED TAXATION**

Deferred tax has been accounted for to the extent that it is probable that a liability or asset will crystallise.

#### **INVESTMENTS**

Investments in associated undertakings are dealt with under the equity method of accounting in the consolidated accounts less amounts written off. In the company's accounts investments in associated undertakings are stated at cost less amounts written off.

Short term investments are stated at the lower of cost and net realisable value. All income from these investments is included in the profit and loss account as interest receivable and similar income.

#### **FOREIGN CURRENCIES**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or, if appropriate, at the forward contract rate. All differences are taken to the profit and loss account.

#### **PENSIONS**

Pension costs are charged to the profit and loss account over the expected service lives of colleagues in the scheme. The pension cost is assessed in accordance with the advice of qualified actuaries.



# ASDA Group plc

## NOTES TO THE ACCOUNTS

at 1 May 1999

### 1. TURNOVER AND SEGMENTAL ANALYSIS

Turnover comprises the value of sales excluding value added tax.

The group operated in two principal areas of activity, categorised as follows:

- ASDA - retail of food, clothing, home and leisure superstores
- Gazeley - property developments.

	<i>52 weeks 1999 £m</i>	<i>52 weeks 1998 £m</i>
<b>TURNOVER</b>		
ASDA	8,178.0	7,600.8
Gazeley	20.3	18.4
	<u>8,198.3</u>	<u>7,619.2</u>
<b>PROFIT</b>		
ASDA	426.9	404.1
Gazeley	8.7	9.6
Operating profit	<u>435.6</u>	<u>413.7</u>
Net interest payable	(12.7)	(8.8)
Profit on ordinary activities before taxation	<u>422.9</u>	<u>404.9</u>
<b>NET ASSETS</b>		
ASDA	2,949.4	2,589.0
Gazeley	59.9	51.7
	<u>3,009.3</u>	<u>2,640.7</u>
Unallocated net liabilities	(433.9)	(360.9)
Total net assets	<u>2,575.4</u>	<u>2,279.8</u>

Unallocated net liabilities comprise balances in respect of investments, dividends and borrowings.

# ASDA Group plc

## NOTES TO THE ACCOUNTS

at 1 May 1999

### 2. OPERATING COSTS

	52 weeks 1999 £m	52 weeks 1998 £m
Change in stocks	(61.7)	(63.2)
Other operating income	(36.8)	(34.7)
Raw materials and consumables	6,367.3	5,973.7
Employment costs	758.3	618.6
Depreciation of tangible fixed assets	145.3	130.7
Other operating charges	590.3	580.4
	<u>7,762.7</u>	<u>7,205.5</u>

#### WITHIN OTHER OPERATING CHARGES:

##### OPERATING LEASE CHARGES

- land and buildings	41.2	38.1
- plant and machinery	12.7	13.9
	<u>53.9</u>	<u>52.0</u>

##### AMOUNTS PAID TO AUDITORS

Fees charged to profit and loss account in respect of:

Audit	0.3	0.2
Other	0.2	0.2
	<u>0.5</u>	<u>0.4</u>

##### EMPLOYMENT COSTS

Wages and salaries	697.9	571.4
Social security costs	45.0	34.1
Pension costs	15.4	13.1
	<u>758.3</u>	<u>618.6</u>

# ASDA Group plc

## NOTES TO THE ACCOUNTS

at 1 May 1999

### 2. OPERATING COSTS (continued)

The average number of colleagues employed by the group during the year was:

		<i>Total</i>	<i>Full time equivalents</i>	
	<i>1999</i>	<i>1998</i>	<i>1999</i>	<i>1998</i>
ASDA	83,280	78,430	51,270	48,052
Gazeley	23	20	22	20
	<u>83,303</u>	<u>78,450</u>	<u>51,292</u>	<u>48,072</u>

### 3. NET INTEREST PAYABLE

	<i>52 weeks</i>	<i>52 weeks</i>
	<i>1999</i>	<i>1998</i>
	<i>£m</i>	<i>£m</i>
Bank loans and overdrafts	(7.9)	(19.5)
Finance leases	(0.6)	(0.3)
Bonds	(38.9)	(30.9)
	<u>(47.4)</u>	<u>(50.7)</u>
Interest capitalised before tax relief of £nil (1998 - £4.3 million)	17.2	13.9
	<u>(30.2)</u>	<u>(36.8)</u>
Interest receivable and similar income	17.5	28.0
	<u>(12.7)</u>	<u>(8.8)</u>

# ASDA Group plc

## NOTES TO THE ACCOUNTS

at 1 May 1999

### 4. TAXATION

The charge to UK corporation tax for the year arises as follows:

	<i>52 weeks 1999 £m</i>	<i>52 weeks 1998 £m</i>
On profit for the year:		
Current	(128.0)	(118.0)
Deferred	20.0	2.7
Adjustments in respect of prior years:		
Current	9.8	13.5
Deferred	(7.7)	3.4
	<u>(105.9)</u>	<u>(98.4)</u>

At 25.0% the effective rate is lower than the standard rate of 30.9% as a result of the impact of partial provision for the deferred taxation on fixed assets timing differences and the release of corporate tax provisions following the agreement of prior year liabilities.

### 5. DIVIDENDS

	<i>52 weeks 1999 £m</i>	<i>52 weeks 1998 £m</i>
Ordinary - interim paid	28.8	27.1
- final proposed	-	78.0
	<u>28.8</u>	<u>105.1</u>

On 14 June 1999, Wal-Mart Stores (UK) Limited, a subsidiary of Wal-Mart Stores, Inc., announced a cash offer for 100% of the issued share capital of ASDA Group plc. The offer became fully unconditional on 27 July 1999 and Wal-Mart Stores, Inc. is now the ultimate parent undertaking of Asda Group plc.

NOTES TO THE ACCOUNTS

at 1 May 1999

6. DIRECTORS' REMUNERATION

The total remuneration of the directors for each of the last two financial years is as follows:

	<i>52 weeks 1999 £000</i>	<i>52 weeks 1998 £000</i>
Total directors' remuneration excluding pension	2,277	2,233
Aggregate gains on the exercise of share options	2,859	970
	<i>No.</i>	<i>No.</i>
Number of directors who are members of the defined benefit scheme	8	6

Amounts in respect of the highest paid director are as follows:

	<i>52 weeks 1999 £000</i>	<i>52 weeks 1998 £000</i>
Total remuneration excluding pension and including gains on exercise of share options	1,486	1,083
	<i>1 May 1999 £000</i>	<i>2 May 1998 £000</i>
Accumulated total accrued pension	20	17

The highest paid director exercised 779,390 share options during the year, 250,000 of which related to qualifying services under a long term incentive scheme.

# ASDA Group plc

## NOTES TO THE ACCOUNTS

at 1 May 1999

### 7. TANGIBLE FIXED ASSETS

	<i>Freehold properties £m</i>	<i>Leasehold properties £m</i>	<i>Plant fixtures &amp; fittings £m</i>	<i>Total £m</i>
<b>COST OR VALUATION</b>				
At beginning of the year	2,139.1	731.5	759.6	3,630.2
Reclassification	99.7	(101.6)	1.9	-
Additions	391.9	53.1	163.5	608.5
Disposals	(61.3)	(39.4)	(75.8)	(176.5)
At end of the year	2,569.4	643.6	849.2	4,062.2
<b>COST OR VALUATION AT END OF THE YEAR IS REPRESENTED BY:</b>				
Valuation	1,502.3	536.7	-	2,039.0
Cost	1,067.1	106.9	849.2	2,023.2
	2,569.4	643.6	849.2	4,062.2
<b>DEPRECIATION</b>				
At beginning of the year	167.1	155.2	412.7	735.0
Reclassification	29.3	(29.4)	0.1	-
Charge for the year	33.0	16.1	96.2	145.3
Disposals	(41.9)	(35.6)	(65.2)	(142.7)
At end of the year	187.5	106.3	443.8	737.6
Net book amounts at end of the year	2,381.9	537.3	405.4	3,324.6
Assets under construction (1998 - £301.1 million)				250.2
<b>NET BOOK AMOUNTS AT END OF THE YEAR</b>				3,574.8
<b>NET BOOK AMOUNTS AT BEGINNING OF THE YEAR</b>				3,196.3

# ASDA Group plc

## NOTES TO THE ACCOUNTS

at 1 May 1999

### 7. TANGIBLE FIXED ASSETS (continued)

Food retailing properties were revalued at 1 May 1996 by External Valuers, Messrs G.L. Hearn and Partners, Chartered Surveyors. The open market valuations were carried out on the basis of "Existing Use Value" as defined in Practice Statement 4 of, and in accordance with, the RICS Appraisal and Valuation Manual (the New Red Book) published by the Royal Institute of Chartered Surveyors, with the exception of certain superstores which, in the opinion of the directors, have a limited future economic life in existing use. In respect of these properties, the directors have estimated their lower, alternative use value.

The cumulative amount of capitalised interest included in the net book value of fixed assets is £40.7 million (1998 - £23.1 million). Details of interest capitalised during the year are given in note 3 on page 19.

The historical cost of food retailing properties included at valuation is as follows:

	1999 £m	1998 £m
Freehold properties	1,428.6	1,250.0
Leasehold properties	573.5	359.8
	<u>2,002.1</u>	<u>1,609.8</u>

The net book amount of plant, fixtures and fittings for the group includes £1.5 million (1998 - £7.3 million) in respect of leased assets after charging depreciation of £5.9 million (1998 - £4.2 million).

	1999 £m	1998 £m
Leases with 50 years or more unexpired	460.6	424.8
Leases with less than 50 years unexpired	76.8	151.5
	<u>537.4</u>	<u>576.3</u>

### 8. FIXED ASSET INVESTMENTS

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Subsidiary undertakings (note 9)	-	-	1,672.9	1,672.9
Qualifying Employee Share Ownership Trust	9.3	10.6	9.3	10.6
	<u>9.3</u>	<u>10.6</u>	<u>1,682.2</u>	<u>1,683.5</u>

The Qualifying Employee Share Ownership Trust ('QUEST') was established for the purposes of the Sharesave Scheme. As at 1 May 1999, 2,239,545 of the ordinary shares issued to the QUEST had been transferred to the option holders exercising options under the Sharesave Scheme and the option money received by QUEST used to repay part of the loan. The remaining 19,660,455 shares held by the QUEST, over which options have been granted, are included in fixed asset investments at a cost of £9.3 million (1998: £10.6 million).

# ASDA Group plc

## NOTES TO THE ACCOUNTS

at 1 May 1999

### 9. SUBSIDIARY UNDERTAKINGS

As at 1 May 1999, the following companies, being those whose results principally affect the financial position of the group, were subsidiary undertakings whose ordinary share capital was wholly owned, and which were registered in England and Wales and operating in the UK.

	<i>Principal activities</i>	<i>Holding Company</i>
ASDA Stores Limited	Retailing	ASDA Group plc
Gazeley Properties Limited	Property Development	Gazeley Holdings Limited
McLagan Investments Limited	Property Investment	ASDA Group plc
The Burwood House Group Plc	Property Investment	McLagan Investments Limited

A complete list of subsidiary undertakings will be annexed to the next annual return to the Registrar of Companies.

<i>Company carrying value</i>	<i>1999</i> <i>£m</i>
-------------------------------	--------------------------

At beginning and end of the year	1,672.9
----------------------------------	---------

A revaluation of the company's investments in subsidiary undertakings was undertaken by the directors at 3 May 1997. The difference between the carrying value of investments in subsidiary undertakings and their historic cost is £161.5 million.

### 10. STOCKS

	<i>Group</i>		<i>Company</i>	
	<i>1999</i>	<i>1998</i>	<i>1999</i>	<i>1998</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Goods held for resale	385.5	339.3	-	-
Development properties	41.2	25.7	-	2.0
	<u>426.7</u>	<u>365.0</u>	<u>-</u>	<u>2.0</u>

### 11. DEBTORS

	<i>Group</i>		<i>Company</i>	
	<i>1999</i>	<i>1998</i>	<i>1999</i>	<i>1998</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Amounts owed by subsidiary undertakings	-	-	1,642.5	1,603.5
Other debtors	48.9	33.4	1.3	2.8
Prepayments and accrued income	72.7	62.5	0.7	-
	<u>121.6</u>	<u>95.9</u>	<u>1,644.5</u>	<u>1,606.3</u>

Amounts owed by subsidiary undertakings includes £405.7m (1998 £379.2m) due after more than one year.



# ASDA Group plc

## NOTES TO THE ACCOUNTS

at 1 May 1999

### 12. INVESTMENTS

Investments are in short term instruments with approved counterparties.

### 13. OTHER CREDITORS

	Group		Company	
	1999	1998	1999	1998
	£m	£m	£m	£m
<b>AMOUNTS FALLING DUE WITHIN ONE YEAR</b>				
Bank overdraft	-	-	0.5	-
Trade creditors	689.3	592.2	-	-
Amounts owed to subsidiaries	-	-	1,115.8	1,108.2
Taxation	156.7	128.6	16.6	3.3
Social security	12.4	11.0	-	-
Other creditors	94.5	77.2	10.6	10.6
Accruals	146.4	158.2	8.7	0.8
Proposed dividend	-	77.9	-	77.9
	<u>1,099.3</u>	<u>1,045.1</u>	<u>1,152.2</u>	<u>1,200.8</u>

### 14. PROVISIONS FOR LIABILITIES AND CHARGES

	Group		Company	
	1999	1998	1999	1998
	£m	£m	£m	£m
Provisions (note 15)	11.2	36.7	-	-
Deferred taxation (note 17)	29.6	41.9	-	-
	<u>40.8</u>	<u>78.6</u>	<u>-</u>	<u>-</u>

### 15. PROVISIONS

	Onerous lease provision £m
At beginning of the year	36.7
Utilised during the year	(25.5)
At end of the year	<u>11.2</u>

The onerous lease provision represents provisions for lease obligations arising from discontinued activities.

NOTES TO THE ACCOUNTS

at 1 May 1999

16. BORROWINGS

	<i>Group</i>		<i>Company</i>	
	<i>1999</i>	<i>1998</i>	<i>1999</i>	<i>1998</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
<b>AMOUNTS FALLING DUE WITHIN ONE YEAR</b>				
Bank finance (a)	79.1	26.2	6.0	-
Obligations under finance leases	2.7	1.9	-	-
	<u>81.8</u>	<u>28.1</u>	<u>6.0</u>	<u>-</u>
<b>AMOUNTS REPAYABLE BETWEEN ONE AND TWO YEARS</b>				
Bank finance (a)	30.5	57.4	-	-
Obligations under finance leases	2.0	2.6	-	-
<b>AMOUNTS REPAYABLE BETWEEN TWO AND FIVE YEARS</b>				
Bank finance (a)	-	30.5	-	-
Obligations under finance leases	-	0.2	-	-
Bonds due 2002 (b)	58.3	58.3	58.3	58.3
<b>AMOUNTS REPAYABLE IN FIVE YEARS OR MORE</b>				
Bonds due 2007 (c)	197.5	197.2	197.5	197.2
Bonds due 2010 (d)	75.9	75.9	75.9	75.9
Bonds due 2015 (e)	148.3	-	148.3	-
	<u>512.5</u>	<u>422.1</u>	<u>480.0</u>	<u>331.4</u>

(a) Bank finance includes bank borrowings and the factoring of certain rental commitments.

(b) On 15 May 1986, the company issued £100 million of unsecured 9 5/8 % bonds at 99 1/2% of nominal value redeemable at par on 25 April 2002 unless previously redeemed at the company's request.

(c) On 24 April 1997, the company issued £200 million of unsecured 8 3/8 % bonds at 98.872% of nominal value redeemable at par on 24 April 2007 unless previously redeemed at the company's request.

(d) On 31 March 1989, the company issued £125 million of unsecured 10 7/8% bonds at 101.753% of nominal value redeemable at par on 20 April 2010, unless previously redeemed at the company's request, at the higher of par or a price calculated to provide a yield equal to that earned on 12% Exchequer Stock 2013/2017.

# ASDA Group plc

## NOTES TO THE ACCOUNTS

at 1 May 1999

### 16. BORROWINGS (continued)

(e) On 17 July 1998, the company issued £150 million of unsecured 6<sup>5</sup>/<sub>8</sub>% bonds at 99.441% of nominal value redeemable at par on 17 July 2015 unless previously redeemed at the company's request.

As at 1 May 1999 all gross borrowings were in sterling at fixed rates of interest.

The average interest rate of fixed rate debt is 8.7% for which the rate is fixed on average for 7 years.

### 17. DEFERRED TAXATION

*Group*

	<i>Depreciation allowances £m</i>	<i>Short term timing differences £m</i>	<i>Total £m</i>
<b>AMOUNT PROVIDED</b>			
At beginning of the year	59.4	(17.5)	41.9
Provision charged through profit and loss account	(19.0)	6.7	(12.3)
At end of the year	40.4	(10.8)	29.6

Provision has been made at the anticipated rate of corporation tax on timing differences which are expected to reverse in the foreseeable future.

*Group*

	<i>Depreciation allowances £m</i>	<i>Short term timing differences £m</i>	<i>Total £m</i>
<b>POTENTIAL LIABILITY</b>			
At beginning of the year	89.2	(17.5)	71.7
Provision charged through profit and loss account	16.0	6.7	22.7
At end of the year	105.2	(10.8)	94.4

Any capital gains tax arising on the disposal of properties at their revalued amounts would be covered by indexation, rollover relief and capital losses.

There is no liability either actual or potential for deferred taxation in the company.

18. COLLEAGUE SHARE OWNERSHIP PLAN

	<i>£m</i>
At beginning of the year	53.1
Additions during the year	24.6
Issued during the year	(20.6)
At end of the year	<u>57.1</u>

The Colleague Share Ownership Plan ("CSOP") is designed to extend share option participation throughout the business and the directors consider that the CSOP is an important factor in motivating and retaining colleagues. Options are granted over shares equal in value to 25% of salary and are exercisable three and six years after grant, provided that the colleague remains employed by ASDA. Option prices are based on market prices prevailing at the date of grant. At 1 May 1999, 61.7 million shares were under option.

The CSOP is administered by an independent professional trust company resident in Jersey. The trust holds sufficient ordinary shares in the company to meet the anticipated future obligations of the CSOP, funded by a direct loan from the company. The costs of the CSOP are charged to the profit and loss account as they accrue. There is a dividend waiver in place in respect of shares held by the trust.

At 1 May 1999 the trust held 46.1 million ordinary shares of the company at an aggregate cost of £57.1 million the related loan from the company being included within fixed assets on the balance sheet. The market value of the shares at 1 May 1999 was £95.3 million.

## NOTES TO THE ACCOUNTS

at 1 May 1999

## 19. CALLED UP SHARE CAPITAL

	<i>Ordinary shares of 25p each</i>	
	<i>1999</i>	<i>1998</i>
	<i>£m</i>	<i>£m</i>
<b>Authorised</b>	1,250.0	1,250.0
<b>Allotted and fully paid:</b>		
At beginning of the year	761.1	753.5
Issued in relation to share option schemes	2.1	7.6
	763.2	761.1

At 1 May 1999 there were 3,052,784,731 ordinary shares in issue (1998: 3,044,450,536). 8,334,195 share options with a nominal value of £2,083,549 were exercised during the year for a total consideration of £7,326,717.

In addition to the CSOP referred to above which uses shares acquired in the market, the group operates a number of share schemes for colleagues. Details of options outstanding under each of the schemes as at 1 May 1999 are summarised as follows:

	<i>Number of participants</i>	<i>Number of options</i>	<i>Price per ordinary share (range) pence</i>	<i>Exercisable by</i>
Executive share option scheme 1984	143	1,841,331	25 - 170	July 2004
Executive share option scheme 1994	2,203	36,566,689	66 - 209.5	January 2009
Sharesave scheme 1994	54,554	84,717,333	47 - 146.5	October 2004

## NOTES TO THE ACCOUNTS

at 1 May 1999

## 20. FINANCIAL COMMITMENTS

	1999 £m	1998 £m
Contracted	53.3	44.7

The annual commitments under non-cancellable operating leases, which relates primarily to land and buildings, is as follows:

	1999 £m	1998 £m
Leases expiring: After five years	40.1	37.8

## 21. RESERVES

	Share premium account £m	Revaluation reserve £m	Profit and loss account £m
<b>GROUP</b>			
At beginning of the year	403.5	229.4	885.8
Retained profit for the year	-	-	288.2
Premium on ordinary shares in relation to share option schemes	5.3	-	-
At end of the year	408.8	229.4	1,174.0
<b>COMPANY</b>			
At beginning of the year	403.5	161.5	538.9
Retained profit for the year	-	-	(23.8)
Premium on ordinary shares in relation to share option schemes	5.3	-	-
At end of the year	408.8	161.5	515.1

In accordance with the exemptions given by Section 230 (3) of the Companies Act 1985 the company has not presented its own profit and loss account.

The profit for the financial year in the accounts of the company was £5.0 million (1998 - £185.7 million).

The cumulative amount of goodwill written off to reserves since 1 January 1989 is £114.5 million (1998: £114.5 million).

## NOTES TO THE ACCOUNTS

at 1 May 1999

## 22. CASH FLOW

	1999 £m	1998 £m
<b>(a) Reconciliation of operating profit to net cash inflow from operating activities</b>		
Operating profit	435.6	413.7
Depreciation	145.3	130.7
Loss/(profit) on disposal of assets	4.1	(2.9)
Utilisation of provisions	(25.5)	(4.4)
Increase in stock	(61.7)	(63.2)
(Increase)/decrease in debtors	(25.6)	11.3
Increase in creditors	92.9	63.9
Net cash inflow from operating activities	565.1	549.1
<b>(b) Analysis of cash flows for headings netted in the cash flow statement</b>		
	1999 £m	1998 £m
<b>Returns on investment and servicing of finance</b>		
Interest paid	(39.0)	(49.8)
Interest received	16.8	29.0
Net cash outflow from returns on investments and servicing of finance	(22.2)	(20.8)
<b>Taxation</b>		
Corporation tax paid (including advance corporation tax)	(90.2)	(82.1)
<b>Capital expenditure and financial investments</b>		
Disposal of tangible fixed assets	24.6	38.1
Purchase of tangible fixed assets	(531.8)	(462.0)
Colleague share ownership plan	(4.0)	-
Net cash outflow from capital expenditure and financial investment	(511.2)	(423.9)
<b>Management of liquid resources</b>		
Net cash inflow from short term investments	10.9	261.6

## NOTES TO THE ACCOUNTS

at 1 May 1999

## 22. CASH FLOW (continued)

	1999 £m	1998 £m
<b>Borrowings and lease financing</b>		
Repayment of US private placement	-	(84.2)
Issue of bonds due 2015	148.2	-
Decrease in other borrowings	(4.1)	(113.8)
Net cash inflow/(outflow) from borrowings and lease financing	144.1	(198.0)

## (c) Analysis of net debt

	At 2 May 1998 £m	Cash flow £m	Other non cash changes £m	At 1 May 1999 £m
Cash in hand and at bank	18.7	(1.6)	-	17.1
Debt due within one year	(28.1)	3.7	(57.4)	(81.8)
Debt due after one year	(422.1)	(147.8)	57.4	(512.5)
Current asset investments	114.1	(10.9)	-	103.2
	(317.4)	(156.6)	-	(474.0)

## 23. PENSIONS

The group operates a final salary scheme open to all full time and part time salaried colleagues and a money purchase plan open to all hourly paid colleagues. These schemes provide a pension in addition to the basic state pension together with other benefits such as life assurance.

The assets of the money purchase plan are invested with the Prudential Life Assurance Company whilst the assets of the final salary scheme are placed by the trustees under the management of professional fund managers. The assets of these schemes are held separate from the group's assets.

The trustees of these schemes have been selected to represent the wide range of members and consist of eight colleagues (nine for the money purchase plan) performing a range of roles in both stores and ASDA House. In addition there is one pensioner trustee and an independent trustee who is a solicitor specialising in pensions work.

The pension cost relating to the final salary scheme is assessed in accordance with the advice of an independent qualified actuary who conducted a triennial valuation as at 6 April 1998 using the projected unit method.



NOTES TO THE ACCOUNTS

at 1 May 1999

**23. PENSIONS (continued)**

The key actuarial assumptions are that the long term rate of investment return will exceed the rate of increase in salaries by 2% per annum and exceed the rate of increase in pensions by 4.25% per annum. The rate of growth of equity dividends is 4.75% per annum. At 6 April 1998, the market value of the scheme's assets was £317.2 million and the actuarial value of these assets represented 102% of the benefits that had accrued to members, after allowing for expected future increases in salaries. To derive the pension cost, the surplus is being spread on a straight line basis over the future working lifetime of the existing members.

There is no prepayment of contributions to the final salary scheme.

The group has no significant exposure to any other post-retirement benefit obligations.